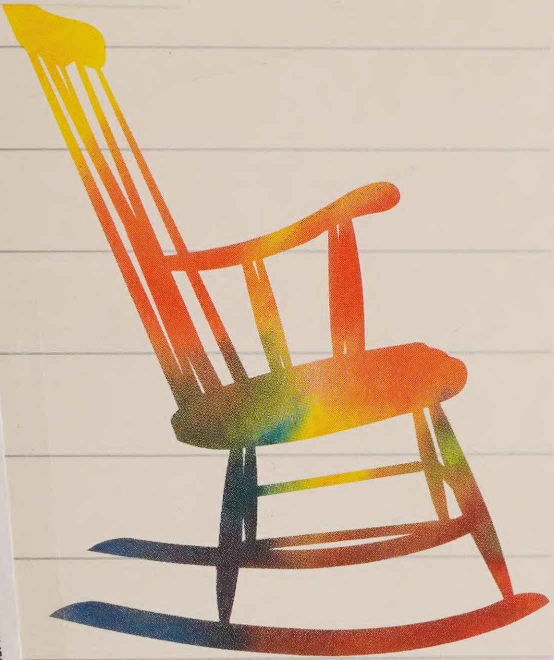
Planning our Future: Do we have to be poor?

A paper to facilitate discussion on women and pensions



Canadian Advisory Council on the Status of Women

Conseil consultatif canadien de la situation de la femme

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December 1986

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Design and Graphics:
André, Gordon and Laundreth Inc., Ottawa
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Ottawa, Ontario
K1P 5R5

Catalogue No. W31-24/1986E
ISBN 0-662-15119-4

Available free of charge from
The Canadian Advisory Council on the Status of Women
Cette publication existe aussi en français.

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INTRODUCTION

Fran, 70, lives in an urban community in the Maritimes. Each month she receives a pension cheque for $636 from the federal government, giving her an annual income of $7,650. She has no other source of pension income.

Joan, 49, is a part-time receptionist in British Columbia making $10,500 a year. Married, the mother of three, she spent 20 years at home. A year ago, she returned to the labour force. She contributes to the Canada Pension Plan (CPP) but as a part-time worker cannot join the company pension plan.

Denise, 35, is a divorced mother of two living in Manitoba. She makes $20,000 a year. When she divorced, she received a share in her husband's CPP credits, as well as half of the credits in his company-sponsored pension plan.

Marie, 33, is an executive secretary and bookkeeper for a Montreal firm and earns $25,000 a year. Married, with two children, she and her husband have just bought a home in a Montreal suburb. She contributes to the Quebec Pension Plan (QPP) but her employer has no pension plan for employees.

All four women are typical examples of women in Canada today. Although their age, location and circumstances differ, they all have one thing in common: the prospect of woefully inadequate pensions to see them through their retirement years. All four women are typical examples of women in their age group; however, the plight of specific groups of women, such as immigrant and Native women, must also be considered.

Today's pension schemes are varied and complex. Even though 70-year-old Fran never worked in the labour force, she receives a pension through the federal government scheme known as Old Age Security (OAS), which was introduced in 1952 to provide senior citizens with a basic pension. Those whose incomes fall below a certain level also receive a supplement called the Guaranteed Income Supplement (GIS). Today, these two programs provide a minimum guaranteed annual income for those over 65.

Joan, Denise and Marie, because they work in the paid labour force, must contribute either to the Quebec or Canada Pension Plan (Q/CPP). The QPP is designed in such a way that it is compatible with the CPP, so that if people move either into or out of Quebec during their working years, their eventual retirement benefits will not be affected.*

Currently, under these plans, about two per cent of an employee's earnings are deducted from each pay cheque up to a set yearly maximum. Employers make "matching" contributions by paying the same amount as employees. In order to support Canada's growing population of elderly people, however, contributions will rise to about 11 per cent of employee earnings by the end of the century. Although this increase is significant, it does not ensure that elderly Canadians will receive a larger pension cheque.

Only 37 per cent of all women in paid employment contribute to employer-sponsored pension plans. Like the Q/CPP, these plans typically pay a percentage of earnings; consequently, women's pension benefits at retirement reflect their low earnings in the work force. Part-time workers are generally excluded from participation in these plans, although this will change in many jurisdictions when pension reform legislation is enacted.

At both the federal and provincial levels, various measures to reform Canada's pension system are being considered. These include ensuring that surviving spouses receive benefits from private pension plans, sharing of Q/CPP pensions between spouses at retirement, improving the terms and conditions of employer-sponsored pension schemes, and increasing the level of benefits under Q/CPP. Although there is no doubt many will be beneficial to women, it is equally true that others may do little to help.

Recent legislation, expected to be in place early in 1987, will give employees the right to retire before the age of 65 or to work beyond age 65. It will also include most part-time workers in pension plans. Employees who retire before 65 will receive reduced benefits to reflect the fact that their contributions to Q/CPP have ended earlier, although they will be drawing a pension cheque for a longer period of time.

* *In order to present a national picture of Canada's pension plans, the term Q/CPP will be used throughout this paper.*

While this legislation reflects the trend toward early retirement and indicates that improvements in pension plans are possible, few women will be able to take advantage of these changes. In the past, because women worked for shorter periods of time in the paid labour force, they therefore did not contribute as much to the Q/CPP. When they did participate, their earnings were not as high as their male counterparts and they were less likely to contribute to employer-sponsored pension plans.

The true value of women's work in the home is neither recognized nor directly compensated. A woman like Joan, who stayed at home raising her family for 20 years, will get few benefits from the Q/CPP because she had no earnings during that time. At retirement, her pension income may not be any higher than Fran's.

Many immigrant women have even fewer sources of pension income to take them through their retirement years. Although their participation rate in the paid labour force is higher than that of Canadian-born women, the vast majority are working in low-paying jobs with no employer-sponsored pension plans. Although they are guaranteed the same basic minimum income as other Canadians, they, like Fran, could be living below the poverty line.

Many Native women in remote communities also have inadequate incomes in retirement. Although they receive the same basic OAS and GIS benefits as other Canadians, the higher cost of food, accommodation and transportation in the North gives them less disposable income. Recently, Native women's groups in the Northwest Territories have been lobbying for benefit levels which recognize their additional living costs.

The Canadian Advisory Council on the Status of Women (CACSW) believes it is important for women to cut through the complexity of proposals for pension reform and to understand the effects these measures will have on their lives. It will also be necessary to link pension reform with the move to employment equity, better wages and the recognition of women's work in the home.

The CACSW outlines these scenarios of women's lives to stimulate discussion among women and policy-makers. As well, it is hoped that this discussion will increase women's knowledge of the pension issue and encourage them to participate in the debate now to ensure their economic security at retirement.

There is no doubt that options and proposals will continue to be presented and debated. What is not so clear is whether a higher standard of living for women during their retirement years will be the final result.

WOMEN 65 AND OVER

Fran is 70. She lives alone in her modest two-bedroom family home in an urban community in the Maritimes. She pays $280 monthly on the mortgage and, with only three years before she owns her home entirely, considers it a small price to pay for her independence. Throughout her life, Fran worked in the paid labour force only sporadically; she remained at home to raise her family of four.

Like 2.5 million other Canadians, each month Fran receives $290 in OAS benefits from the federal government. In addition to this amount, however, she is among the 13 per cent of elderly women in Canada who receive the full amount of GIS, which gives her an additional income of $346 each month. Fran receives GIS because she has little or no income other than OAS.

Fran does not consider her situation to be intolerable; although she knows she's poor, she's grateful for her health and independence. After deducting the mortgage payment, Fran has an income of between $250 and $300 a month for basic necessities. This does not leave much for new clothes or special treats for herself or her grandchildren.

Solutions:

Many elderly women are living in situations similar to Fran's. In 1984, for example, a full 59 per cent of single elderly women lived on an annual income of less than $9,000. Fran's yearly income from OAS and GIS is $7,650, well below the $10,600 that the National Council on Welfare has estimated to be the poverty level for a single person living in an urban community.

As the trend toward an aging population and a longer life expectancy for women continues, poverty among elderly women may increase, unless steps are taken to address women's pension needs. Most elderly women today rely exclusively on payments from government pensions; a small percentage are lucky enough to be able to augment their income with their own savings or with surviving spouse's benefits.

For women like Fran, who are already over the age of 65, the only answer to poverty is to increase the amount of OAS and GIS they are receiving. The last increase in the real value of the OAS occurred in 1973 when it was raised to $100 a month. Since then, OAS has been indexed to the cost of living through the Consumer Price Index. In the past, OAS represented as much as 20 per cent of the average wage; now, however, it has dropped to 14 per cent. People who receive OAS benefits have seen their standard of living fall behind that of the population as a whole.

The GIS, which Fran receives, is an income supplement for lower-income elderly people. Like the OAS, it is adjusted every three months as the cost of living increases. The amount of GIS benefits that elderly Canadians receive depends on their income and not on their assets. The fact that Fran owns her own home, for example, will not disqualify her from GIS; what counts is how much money she has to live on.

WOMEN 45-64

Joan, 49, knows that she faces an uncertain future as far as pensions are concerned. A mother of three, she spent 20 years at home raising her family. She never felt there was a need for her to work outside the home. Her husband, Ben, is a successful corporate lawyer and is paid top dollar. His company has a good pension plan to which Ben has been contributing for nearly 20 years.

Now that her children are all in school, though, Joan would like to get out of the house more. About a year ago, she landed a part-time job as a receptionist for a busy newspaper chain. For the past year, she has worked mornings at the office, taken word processing courses in the afternoon, and tended the house in the evening. She appreciates the feeling of independence that earning her own money has given her.

The training courses paid off last month when the company offered her a permanent part-time position as an administrative assistant, with a starting salary of $12,500. Although her employer has a pension plan, as a part-time worker Joan is not eligible to participate. She does, however, contribute to Q/CPP because her annual earnings are above $2,500.

Joan realizes she has only 16 years to contribute to the Q/CPP before retirement. She feels she can't afford to contribute to a Registered Retirement Savings Plan (RRSP). From time to time, she reflects on her years at home raising the children and the lack of recognition for that work. She feels homemakers should receive pension benefits.

Solutions:

Joan's case is typical of the nearly 46 per cent of married women between 45 and 64 who are now participating in the labour force. A full-time homemaker for many years, at 49 she is now facing many challenges: coping with regular paid employment again, learning new skills, and maintaining her household.

At retirement, Joan won't receive much more pension income than Fran unless new legislative changes allowing part-time workers to contribute to company pension plans come into effect. When she retires, she will receive a Q/CPP pension that reflects her contribution to the plan during her years in the labour force. Like all elderly Canadians, she will also get OAS. Since her husband will be receiving benefits from a private pension plan, their combined family income will be fairly high. As a result, she will not qualify for GIS.

Unlike Fran, whose husband had no survivor's benefits in his company pension plan, Joan could benefit from changes in legislation that will make it mandatory for all employer-sponsored plans to provide benefits to surviving spouses. So, if Ben dies, Joan could get up to 60 per cent of his original pension. She will also get a surviving spouse's benefit based on Ben's contributions to the Q/CPP.

Joan could also benefit from a second measure designed to help women who haven't had long-time participation in the labour force. If recent federal legislation is accepted by the provinces, CPP benefits could be divided between the spouses when they both retire. In this case, Joan could get a pension cheque in her own name, even if she hadn't worked outside the home.

Joan supports this proposal and feels it would give some recognition for the partnership and sharing that have been the hallmarks of her 21-year marriage to Ben. But she knows that the legislation is not mandatory and that it requires spouses interested in sharing pension benefits to make an application to the federal government. Although the procedures required to make this application may be cumbersome and will not affect the amount of pension income that the couple will receive, Joan feels it recognizes the contribution that women have made through their work in the home.

She is also aware that the Q/CPP pension will be only 25 per cent of Ben's average annual income, up to a maximum limit. And, unless the benefits level of the Q/CPP is increased, there won't be a very large pension from that source for Joan and Ben to share.

The uncertainty surrounding pension splitting has strengthened Joan's belief that allowing homemakers to contribute directly to the Q/CPP is the only way that women like her would be compensated for the years they spent working at home. Like many other Canadians, she believes that such a pension would help older women, who have spent most of their lives caring for their families on a full-time basis, to escape poverty.

Currently, the work of women who are homemakers is not recognized in the Q/CPP because these plans are based on earnings in the labour force. Women who are homemakers have no earnings on which contributions could be based. While women who have had little or no earnings up to the age of 65 are entitled to the OAS, and GIS if they qualify, and are guaranteed a basic minimum income, Joan feels that her 20 years of working in the home should give her the right to get a pension from the Q/CPP instead.

Supporters of the special homemaker's pension suggest that while homemakers receive no earnings for their work, this could be overcome by assuming that their earnings are equivalent to half the average Canadian wage, and by basing contributions and benefits on that amount.

Employees already in the work force will contribute 1.9 per cent of their earnings to the Q/CPP in 1987, within certain limits, and their contributions will be matched by their employers. For the homemaker's benefits, the spouse in the work force would be required to pay both the employer and employee portion on behalf of the spouse at home. Low-income, one-earner couples, who normally would not be able to afford to pay this amount every month, would be subsidized by all Q/CPP contributors.

A major problem with this proposal is that although the pension is intended to recognize the value of a woman's work in the home, it recognizes that work only if a woman remains outside the paid labour force. Joan knows, for instance, that although she now has a paying job, she is still doing almost all the work in the home that she did before. Under this proposal, however, once women return to the labour force, their work at home would no longer be recognized.

The effect of the special homemaker's contribution, then, would be to give extra benefits to one-earner couples, who now account for only 16 per cent of all Canadian families. Two-earner couples, the largest type of family, would not qualify for a homemaker's pension, because the woman is working in the paid labour force and contributing to the Q/CPP.

The other problem with this proposal is that it would not necessarily guarantee that a woman would be markedly better off financially in retirement than she is now. If she received a homemaker's pension from the Q/CPP, for instance, her entitlement to GIS could be reduced because the amount of this income depends on other income.

WOMEN 35-44

Denise, 35, earns $20,000 as an executive secretary for a wheat board agency in rural Manitoba. She's been back at work for three years, having dropped out of the labour force for eight years to raise her family of two, of which the younger, Sarah, is slightly disabled.

Denise and her husband, Ed, divorced three years ago. Each month she receives $500 in child maintenance payments from him. Since going back to work, it's been an uphill struggle. The high cost of child care for her children, the special challenges that Sarah poses, and the stress of the divorce have taken their toll.

Lately, Denise has been looking for a job that offers better benefits, including a company-sponsored pension plan that is lacking at her current job. She also tries to contribute to an RRSP each year, not as a nest egg for retirement, but as a way of reducing her income tax.

Denise was lucky in one sense though. Because she lived in Manitoba when she and Ed divorced, she was entitled to receive half of the contributions he made to his company-sponsored plan. Although it represents a small sum of money, it has provided her with a sense of some security. From time to time, Denise wishes she could use this money to fix up the apartment, but by Manitoba law, this money was rolled over into an RRSP which can't be taken out until retirement.

Like all Canadians who divorce, she was also entitled to apply for a 50-per-cent share of his Q/CPP pension credits that he accumulated during their marriage. She will only have access to these credits when she retires at 60 or 65.

Solutions:

Denise is one of many Canadians who take advantage of RRSPs each year. Like many others, Denise uses her RRSPs as a way of reducing income tax; each year she tries to contribute as much as possible so she'll get a good tax refund in May or June. She has never really investigated the range of plans available to her nor has she considered what type of plan would help her accumulate the most money for her retirement.

Even if Denise could afford to invest more, recent changes to the amount that can be invested in RRSPs give the greatest benefit to those few people earning $86,000 or more. Those earning in the $20,000 to $25,000 range can invest $500 less today than they could a few years ago.

Denise knows her half-share in her husband's pension credits, currently guaranteed by law only to spouses living in Manitoba, was a boon for her. She's also aware, however, that this money will not be enough for her in retirement. It's for this reason that she began looking for a job that pays as well as her current position and that has a company pension plan. The odds, however, are not in her favour, as only 37 per cent of all women in paid employment in Canada participate in employer-sponsored plans.

Denise might have to settle for a company which offers a pension plan based on an RRSP. Many smaller employers are now starting to offer this type of plan, which is similar to an RRSP, with both the employer and employees contributing. A drawback to such a scheme is that it doesn't promise a pension benefit that would be a percentage of the employee's earnings before retirement. Instead, the amount Denise would receive would depend on how much interest the plan could earn before she retires.

Unless she contributes to a company pension plan or can invest in RRSPs, Denise will be relying on the benefits from her contributions to Q/CPP to supplement her OAS and see her through her retirement years. Because Denise's earning potential is not high, and Q/CPP pays only 25 per cent of her average earnings up to a yearly maximum, it is unlikely that these benefits will be sufficient. Many people have recommended that the benefit level of the Q/CPP be increased from 25 per cent to 50 per cent of earnings. However, this benefit level is not possible without a substantial increase in Q/CPP contributions.

WOMEN 20-34

Marie, 33, is married with two children. She and her husband, Garry, both work outside the home. She works as an executive secretary and bookkeeper earning $25,000 a year, he as a systems analyst, earning $35,000. Recently, Garry's career appeared to be taking off when he was promoted to a fast-track management position. His company offers a good pension scheme.

Marie has been working since leaving business college at 20. Other than 17 weeks' maternity leave after the birth of each of their two children, she feels she can't afford to stay at home. The couple has recently bought a three-bedroom home on the outskirts of Montreal and payments on the mortgage require two incomes.

As a bookkeeper, Marie keeps track of the family finances. She knows that the family lost money when she was home after the birth of the children because Unemployment Insurance benefits for maternity leave were only 60 per cent of what she usually earned.

Recently, Marie has become interested in the issue of pensions. Although her company has been thinking about a pension plan for employees, one has yet to materialize. If she did participate in such a plan, at retirement she would have received a pension equivalent to two per cent of her salary for each year that she worked for the company.

What Marie didn't realize until recently was that, under this type of plan, she would have to stay with her employer for 10 years before she'd get the pension benefits she'd been promised. If she quit before then, she would get back only what she paid into the plan with little interest on her contributions.

Marie has followed closely the debate surrounding legislative changes which would mean that employees have to contribute to the company plan for only two years instead of the current ten before they get the pension benefits they've been promised. Although Marie welcomes this change, which would allow her the flexibility to change jobs after two years, she is concerned that she could end up getting a number of pensions from different employers, all small amounts, which would not be indexed to inflation.

Solutions:

Marie's prospects at retirement are only slightly better than those of Fran, Joan and Denise. Garry's rapidly rising salary will mean he will receive the maximum Q/CPP benefits and that his employer-sponsored pension plan will supplement his Q/CPP pension. Although Marie does not contribute quite the maximum to Q/CPP because her salary is lower, she will receive a Q/CPP pension herself.

At one point, Marie investigated how long she could be away from the work force without losing her hard-earned Q/CPP benefits. She discovered that years when she had a child under the age of seven can be excluded from the calculation of her average annual lifetime earnings on which her Q/CPP benefits will be based, if that is to her advantage. So, if she'd had to work part-time while her children were small, or even if she'd had to leave the work force completely, her Q/CPP benefits would not have been affected.

One solution that would help Marie would be to increase the level of benefits under the Q/CPP. Since she has no pension plan at work, Marie will not do well at retirement. In addition to her OAS benefit, plus any amounts she's been able to save through an RRSP, her Q/CPP benefits will give her only 25 per cent of her average annual salary up to a maximum limit.

If Q/CPP benefits were doubled, as many groups have recommended, Marie's OAS and Q/CPP benefits would give her an income in retirement that was about two-thirds of what she was making up to age 65. This proposal, of course, would mean that everyone would have to pay higher contributions to the Q/CPP. But, even with a doubling of the contribution rate, Canadians would not be paying rates as high as those in many European countries for government-supported or public pension plans.

SUMMARY:

The lives of Fran, Joan, Denise and Marie illustrate the complexity of the pension issue. It is also clear that no one solution will benefit all women and that a combination of reforms to both public and private pension plans is necessary to provide women with an adequate pension during retirement. A summary of some possible reforms are presented below.

For women over 65 (Fran):

- Increase the amount of OAS and GIS so that elderly women on their own are not living below the poverty line.

For women 45-64 (Joan):

- Increase the benefit level of the Q/CPP from 25 per cent of average earnings to 50 per cent;
- Make splitting of Q/CPP and private pension credits as well as RRSPs mandatory when both spouses reach retirement as well as in the event of divorce;
- Make benefits for surviving spouses mandatory in private pension plans;
- Ensure that women who have spent many years as full-time homemakers are not disadvantaged in the pension system; and
- Allow part-time workers to contribute to employer-sponsored pension plans.

For women 20-44 (Denise and Marie):

- Increase the benefit level of the Q/CPP;
- Ensure that benefits for surviving spouses are mandatory for employer-sponsored pension plans;
- Make splitting of Q/CPP and private pension credits as well as RRSPs mandatory when both spouses reach retirement age as well as in the case of divorce;
- Provide incentives to improve the coverage of employer-sponsored pension plans; and
- Improve the terms and conditions of employer-sponsored pension plans by changing regulations.

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